

FISCAL NOTE

Bill #: HB0540

Title: Motor vehicle flat fee or cap to replace tax on motor vehicles

Primary

Sponsor: Larry Grinde

Status: As amended in Senate Tax

Sponsor signature

Date

Dave Lewis, Budget Director

Date

Fiscal Summary

	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
Expenditures:		
General Fund	\$279,469	\$371,526
Revenue:		
General Fund	\$0	(\$5,210,000)
State Special Revenue-9 mills	0	(\$381,000)
State Special Revenue-Department of Transportation	0	(\$1,645,323)
State Special Revenue-Department of Commerce	0	(\$20,000)
Net Impact on General Fund Balance:	(\$279,469)	(\$5,581,526)

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. On January 1, 2000, SB260 becomes law. Under SB260, light cars and trucks pay a vehicle property tax of 1.4% of their taxable value. This revenue is distributed 10% to district courts and 90% according to mills except for the 40 mills and 6 mills state special revenue which are disregarded in the distribution.
2. The total revenue from SB260 cannot exceed its FY2001 level due to built-in indexing within the bill.
3. If approved by voters in November 2000, this bill would apply to vehicle registration periods beginning after December 31, 2000.
4. If this bill were approved, sections 2 and 3 of SB260, which involve computation, built-in indexing and distribution of vehicle tax, would be repealed. The new method of taxation and distribution under this bill would take effect and the built-in indexing would not carry over.
5. This bill would have two major effects upon motor vehicle revenue. It would replace the vehicle property tax on light cars and trucks with the flat fee contained in this bill and would repeal the new car sales tax.

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6. Vehicle property tax is collected uniformly throughout each fiscal year. Three of the six deposits into the motor vehicle suspense fund for FY2001 are made after January 1, 2001, the date this bill becomes effective. Therefore, half of the collections in FY2001 would be based on SB260 law and half would be based on proposed law. All collections of vehicle taxes in FY2002 would fall under the proposed law.
7. The following table shows actual 1997 collections and distributions from the current 2% tax on motor vehicles. It also shows the forecast collections in FY2001 and FY2002 with SB260 as current law. A growth rate in revenue of 6% per year from 1997-2000 and 5% per year from 2000-2002 is assumed. No growth occurs from FY 2001 to FY 2002 because of the built in indexing in SB 260.

Fund	1997	FY2001	FY2002
State GF	16,075,580	4,250,249	4,250,249
6 mills	1,015,300	1,268,661	1,268,661
1.5 Mills	88,839	84,936	84,936
9 Mills	609,180	761,196	761,196
County Governn	12,298,665	11,758,330	11,758,330
County Misc.	4,766,833	4,557,404	4,557,404
Countywd Retire	4,379,327	4,186,923	4,186,923
Countywd Trans	703,941	673,014	673,014
School GF	18,275,397	20,672,807	20,672,807
School non-GF	4,568,849	4,368,119	4,368,119
Cities/Towns	5,118,803	4,893,911	4,893,911
District Court	5,110,806	6,386,172	6,386,172
Total	73,011,520	63,861,722	63,861,722

8. This bill would repeal the new car sales tax resulting in an estimated \$6,871,505 decrease in state special revenues in FY2001 and \$13,775,009 in FY2002. In FY2001, \$6,536,505 of this decrease would be experienced by the Department of Transportation, \$315,000 by counties and \$20,000 by the Department of Commerce. In FY2002, \$13,073,009 of this decrease would be experienced by the Department of Transportation, \$660,000 by counties and \$42,000 by the Department of Commerce.
9. The proposed vehicle registration fee is \$195 for vehicles 4 years old or less, \$65 for vehicles 5-10 years old and \$6 for vehicles greater than 11 years old. The effect from imposing this fee is an estimated increase in revenue of \$89,000 in FY2001 and \$6,564,000 in FY2002.
10. This bill would eliminate the 95 mills, 6 mills State Special Revenue for the University System and the 9 mills State Assumption of Welfare from the distribution of the vehicle registration fee.
11. Under this bill, new vehicles (less than 1 year old) registered in counties with a local option tax would pay the option tax in addition to the flat fee. Under current law, new cars do not pay the option tax. All money generated from imposing the local option tax on new vehicles, an estimated \$942,435 in revenue in FY2001 and \$3,108,300 in FY2002, would go to the Department of Transportation (Highway Restricted State Special Revenue Account).
12. Under this bill, all revenue generated from the flat fee collected on new vehicles (which pay \$195) would be distributed to the Department of Transportation (Highway Restricted State Special Revenue Account) rather than according to mills. This would amount to an estimated \$3,948,750 in FY2001 and \$8,273,850 in FY2002 to the Department of Transportation, money that would otherwise have gone to county and local governments. Because school district general funds statewide are guaranteed their FY1999 levels, the state general fund would make up the amount that would have been lost by school district general

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funds. This would cost the state general fund an estimated \$1,293,777 FY2001 and \$2,131,947 less in FY2002.

13. Under this bill, the state general fund must reimburse school district general funds to their FY1999 level. This would cost the state general fund \$1,791,122 in FY2001 and no money in FY2002 because school district general funds statewide earn more revenue than FY1999 levels in that year.

14. The following table, based on a computer program analysis using the Department of Justice motor vehicle database, shows the estimated collections in FY2001 and FY2002 under current law and under the proposed law and the differences between the two. In FY2001, the total effect of this bill is an estimated decrease of \$5,841,000 in revenue and in FY2001 it is a decrease of \$4,104,000.

Estimated Fiscal Impact of HB540						
(As Amended)						
FY 2001						
Fund	Current Law Sb260	Proposed Law	Difference from Flat Tax	Difference from Repealing Sales Tax	Difference from DOT reimbursemen t	Net
State GF	4,250,249	(959,775)	(3,916,247)	0	(1,293,777)	(5,210,024)
6 mills	1,268,661	634,331	(634,331)	0	0	(634,331)
1.5 Mills	84,936	91,786	13,139	0	(6,289)	6,850
9 Mills	761,196	380,598	(380,598)	0	0	(380,598)
Dept. of Transportatio	13,073,010	11,427,687	0	(6,536,505)	4,891,182	(1,645,323)
Dept. of Commerce	40,468	20,234	0	(20,234)	0	(20,234)
County Government	11,758,330	12,391,377	1,819,010	(315,298)	(870,664)	633,048
County Misc.	4,557,404	4,924,973	705,029	0	(337,460)	367,569
Countywd Retirement	4,186,923	4,524,611	647,716	0	(310,027)	337,689
Countywd Transport	673,014	727,295	104,115	0	(49,834)	54,281
School GF	20,672,807	20,672,807	0	0	0	0
School non-GF	4,368,119	4,720,421	675,747	0	(323,444)	352,303
Cities/Towns	4,893,911	5,288,620	757,087	0	(362,377)	394,710
District Court	6,386,172	6,289,587	298,290	0	(394,875)	(96,585)
Total	76,975,200	71,134,552	88,958	(6,872,037)	942,435	(5,840,644)
FY 2002						
State GF	4,250,249	(2,131,947)	(4,250,249)	0	(2,131,947)	(6,382,196)
6 mills	1,268,661	0	(1,268,661)	0	0	(1,268,661)
1.5 Mills	84,936	103,307	31,549	0	(13,178)	18,371
9 Mills	761,196	0	(761,196)	0	0	(761,196)
Dept. of Transportatio	13,073,010	11,382,150	0	(13,073,010)	11,382,150	(1,690,860)
Dept. of Commerce	42,386	0	0	(42,386)	0	(42,386)
County Government	11,758,330	13,641,145	4,367,603	(660,478)	(1,824,310)	1,882,815
County Misc.	4,557,404	5,543,158	1,692,837	0	(707,083)	985,754
Countywd Retirement	4,186,923	5,092,542	1,555,223	0	(649,603)	905,620
Countywd Transport	673,014	818,585	249,989	0	(104,418)	145,571
School GF	20,672,807	20,672,807	578,916	0	(578,916)	0
School non-GF	4,368,119	5,312,931	1,622,527	0	(677,716)	944,811
Cities/Towns	4,893,911	5,952,450	1,817,832	0	(759,293)	1,058,539
District Court	6,386,172	6,486,258	927,470	0	(827,385)	100,085
Total	76,977,118	72,873,386	6,563,840	(13,775,874)	3,108,301	(4,103,733)

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15. Using these projections, the net effect upon the state general fund (including the 1.5 mills for vo-techs) from the change in taxation is a decrease of \$5,581,526 in FY2001 and a decrease of \$6,382,000 in FY2002.
16. The net effects upon the Department of Transportation after removing the new car sales tax and adding back the flat fee and option tax for a vehicles first year would be a decrease of \$1,645,323 in FY2001 and \$1,690,860 in FY2002.
17. There would be a decrease to the 6-mill University fund of \$634,331 in FY 2001 and \$1,268,661 in FY 2002 as a result of this bill.
18. The effect upon the 9-mill state special revenue fund for State Assumption of Welfare is estimated to be a decrease of \$381,000 in FY2000 and \$761,000 in FY2001.
19. The proposed bill provides that reimbursements be made from the state general fund to school district general funds if school general funds receive less money than they did under current law in FY1999. The estimates show school district general funds increasing on a statewide level, so the assumption is made that no reimbursements would be necessary.

Secretary of State

20. A voter information pamphlet will be printed for this issue. The VIP will be 55 pages in length for HB540. There will be 525,000 VIPs printed and circulated.
21. The cost to the Secretary of State for printing the VIP will be \$68,145. (55 pages * \$.00236/page * 525,000 VIPs).
22. The cost to the counties for distribution of the VIP will be \$241,280. (55 pages * .008356/page * 525,000 VIPs). Funding for these costs will be distributed to the counties by the Secretary of State through a general fund appropriation.
23. Although the Secretary of State does not have a general fund budget, the cost of submitting this issue to the electorate will be supported by the general fund.
24. There is a regularly scheduled statewide election in November 2000, therefore there will not be additional expenses to the state and county to actually hold the election

Department of Justice

25. It will be necessary to maintain the current MSRP valuation system for the calculation of the county local option taxes approved by the counties.
26. It will be necessary to contract programming with an outside vendor since department programming staff are committed to completing the current backlog of more than 9,000 hours of programming to comply with 1997 legislative changes, Y2K, and various other programs. One-time expenses for programming changes required by the passage of this bill are projected to cost \$88,800 for consultant services plus \$19,891 for increased computer processing charges generated during programming and system testing, or a total of \$108,691 during FY2000. (1,184 hours x \$75.00/hour = \$88,800 + \$19,891 = \$108,691)
27. Start up of this bill would require eight regional three-day training sessions which would be held statewide for every employee at an estimated cost of \$3,600 for meeting rooms, \$66,240 for per diem, and \$69,888 for lodging, or a projecting training cost of \$139,728 in FY2000.
28. Operating expenditures are expected to increase \$31,050 in FY2000 and \$62,101 in FY2001 to provide the additional tabs for distribution by the county treasurers to the public taxpayers and increased computer processing time due to the extensive, complex computer runs.

FISCAL IMPACT:

Department of Revenue

Revenues:

	<u>FY2000</u>	<u>FY2001</u>
	<u>Difference</u>	<u>Difference</u>
General Fund	0	(\$5,210,000)
State Special - 9 mills	0	(381,000)
State Special - DOT	0	(1,645,323)
State Special - Dept. of Commerce	0	(20,000)

Secretary of State

Expenditures:

Operating Expenses	\$0	\$68,145
Transfers	<u>0</u>	<u>241,280</u>
TOTAL	\$0	\$309,425

Funding:

General Fund (01)	\$0	\$309,425
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Department of Justice

Expenditures:

Operating Expenses	\$279,469	\$62,101
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Funding:

General Fund (01)	\$279,469	\$62,101
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NET IMPACT TO FUND BALANCE (revenue minus expenditure)

General Fund (01)	(\$279,469)	(\$5,581,526)
State Special (02)	0	(2,046,323)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Department of Revenue

Overall, it is estimated that this bill would result in a net increase in revenue to local governments of \$2,140,000 in FY2001 and \$5,923,500 in FY2002. In FY2001, county governments would experience an increase in revenues of \$1,393,000, cities and towns an increase of \$395,000 and schools an increase of \$352,000. In FY2002, county governments would experience an increase in revenues of \$3,920,000, cities and towns would receive an increase of \$1,058,500 and schools an increase of \$945,000.

LONG-RANGE IMPACTS:

Department of Revenue

The future impacts on state general, state special revenue and local governments from introducing a new vehicle flat tax would be at the levels they are in FY2002.

Department of Transportation

The estimate the highway special revenue account would receive from retaining their own interest earnings is \$1,200,000 per year starting in FY 2002. The net decrease in FY 2002 and beyond for the highway state special revenue account is \$490,860.

TECHNICAL NOTES:

Department of Revenue

1. If this bill were approved by voters, section 3 of SB260 which removes the 40 mills and 6 mills from Vehicle tax distribution would terminate on January 1, 2001. The new distribution outlined in this bill would then take effect.

Secretary of State

2. When considering the costs of an electorate vote, any costs greater than \$194,203 which are distributed to the counties must be funded by the Legislature (1-2-112, MCA).
3. The Secretary of State does not have sufficient funding in their current budget to cover the expense of VIP for HB540.

Department of Justice

4. The Department of Justice Motor Vehicle Division is assuming it is the intent of the Legislature that the Motor Vehicle Division proceed with the planning and programming necessary to implement this bill as written prior to the November 2000 election. This will require a considerable effort and expense to contract for the programming processes prior to the approval or disapproval of the electorate.
5. The motor vehicle system programming requirements are very significant, requiring more time than will be available between the election in November 2000 and the effective date of January 1, 2001, to implement all provisions of this bill. The intricate and complex programming mandated by this bill will require nearly 7-1/2 months to complete; therefore, the motor vehicle system programming mandated by this bill will have to be completed prior to the November 2000 election unless the effective date is delayed until July 1, 2001.